



Australian Government

Advisory Council on Intellectual Property



Review of the Innovation Patent System

ISSUES PAPER

August 2011

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1. Background information

1.1 Executive summary

The objective of the innovation patent system is to stimulate innovation in Australian small to medium business enterprises (SMEs) by providing IP rights for lower level inventions. The innovation patent system requires a lower degree of inventiveness (innovative step) than a standard patent so as to provide protection for lower level inventions. The innovative step requirement has proven to be low and easy to satisfy. This situation contrasts with standard patents where the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011 raises the degree of inventiveness required for standard patents to a level that is more consistent with standards set in Australia's major trading partners. Hence it is arguable that the innovation patent system is inconsistent with the intentions of the Raising the Bar Bill.

Also, despite the disparate inventiveness thresholds, the *Patents Act 1990* (the Patents Act) provides identical remedies against infringement for innovation patents and standard patents.

Additionally, in recent years, a variety of other concerns have been raised about the innovation patent system and whether it is meeting its original objectives. This Issues Paper explores these concerns and invites stakeholders to comment on them and other matters.

1.2 Advisory Council on Intellectual Property

The Advisory Council on Intellectual Property (ACIP or the Council) is an independent body appointed by the Australian Government to provide advice to the Minister for Innovation, Industry, Science and Research and IP Australia on matters relating to Australia's intellectual property (IP) system and the administration of the system by IP Australia. Members of the Council are drawn from business and manufacturing sectors, the patent attorney and legal professions, government, the tertiary and research sectors, and technology and commercialisation groups.

IP Australia is the federal agency responsible for administering the patent, trade mark, design and plant breeder's rights systems.

1.3 Background to the review

In recent years a variety of concerns have been raised about the relevance and operation of the innovation patent system. One of the key concerns is that the innovation patent is overly generous given that it has a lower inventive threshold and the same remedies against infringement as a standard patent. Another concern is that some applicants are using the innovation patent system for tactical purposes regarding higher-level inventions rather than as attempts to protect lower-level inventions. An applicant for a pending standard patent retains the opportunity to file as many divisional innovation patents as they see fit (up until the point where the limited term of innovation patents prevents further filing). This means that a person accused of infringement may find themselves initially defending proceedings for infringement of a first patent, and subsequently see the proceedings amended to include another innovation patent drafted to address the weaknesses of the first patent that have been identified in the proceedings and so on.

The innovation patent system has been in operation for 10 years. Andrew Christie and Sarah Moritz from the Intellectual Property Research Institute of Australia (IPRIA) reviewed the innovation patent system in 2004 (revised in 2005) and IP Australia conducted a similar review in 2006. These reviews were conducted before the courts interpreted any contested legislative provisions that are unique to the innovation patent. Hence, these reviews were empirical in nature and found that the objectives of the innovation patent were generally being met. Now that the courts have interpreted some of the legislative provisions unique to the innovation patent, it is appropriate to conduct another review of the innovation patent system to assess whether its objectives remain appropriate for Australia today and in the future.

1.4 Terms of Reference

The Minister for Innovation, Industry, Science and Research requested ACIP to:

Inquire, report and make recommendations to the Australian Government on the effectiveness of the innovation patent system in stimulating innovation by Australian small to medium business enterprises and, if effective, have regard to:

- any new opportunities for enhancing its effectiveness and efficiency; and
- any unintended consequences arising from its implementation.

1.5 Submissions to this review

ACIP invites any interested parties to make a written submission in response to this Issues Paper. In particular, ACIP seeks responses to Questions 1-11 contained in Part 8. However, the purpose of the paper is to provoke discussion and any other relevant comments are very welcome. Where possible, submissions in electronic format are preferred.

Submissions should be sent to:

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Secretariat
Advisory Council on Intellectual Property
PO Box 200
WODEN ACT 2606

Email: mail.acip@ipaaustralia.gov.au
Telephone: 02 6283 2543

The closing date for submissions is 14 October 2011.

1.6 Further consultation

Once all written submissions have been considered, ACIP may conduct round table or one-on-one discussions with interested parties. ACIP would appreciate those making submissions to indicate whether they would be interested in participating in any such discussions and provide contact details.

2. Patent system

2.1 General objectives of the patent system

Globally, patents are seen to be a key measure of the extent and success of an innovation culture.¹ In an Australian context, similar views have been expressed by Gans.² The patent system serves three roles: to provide incentives to innovate; to encourage the dissemination of knowledge; and to facilitate technology transfer, commercialisation and diffusion. The patent system therefore has economic and non-economic objectives that aim to benefit society through optimising innovation and public access to new technologies. If the law did not protect inventions then free riding could occur and there would be no incentive to invest in new technologies. Only those innovations that satisfy certain thresholds of inventiveness are considered to warrant such rights.

2.2 Costs of having a patent system

Whilst the patent system rewards innovation, this comes at a social cost by temporarily blocking imitation and preventing others from using knowledge.³ The size of this social cost varies according to the robustness of the patent right granted. A strong, robust and difficult to obtain patent with a high inventiveness threshold may lead to an excessively strong monopoly and slow down the pace of technological progress. Conversely, a weak and easily obtained patent with a low inventiveness threshold may lead to a reduced investment in research and development, create an anti-commons or encourage anti-competitive behaviour. Government IP policy tries to strike a balance between these competing effects to both reward the inventor and protect the interests of the rest of society by providing access to knowledge.

2.3 Genesis of the innovation patent system

In 1995 the Advisory Council on Industrial Property—now called the Advisory Council on Intellectual Property—published their report *Review of the Petty Patent System*.⁴ The primary objective of the petty patent system was to provide a form of patent protection that was suitable for inventions of short commercial duration (yet of a high level of inventiveness). It was thought that this would increase the inventor's return on investment, and encourage greater innovation. Standard patent protection had proved unsuitable for this purpose because of the time and cost it involved.

ACIP concluded that the petty patent was not achieving its objectives. They recommended the replacement of the petty patent system with the innovation patent system. The Government accepted a majority of ACIP's recommendations in agreeing to establish an innovation patent system to protect incremental inventions that may not be inventive enough to warrant standard patent protection and are not covered by design legislation.

¹ Idris K. & Arai H., *The Intellectual Property-Conscious Nation: Mapping the Path from Developing to Developed*, WIPO Publication No. 988(E), p13, (available from: http://www.wipo.int/export/sites/www/about-wipo/en/dgo/wipo_pub_988/pdf/wipo_pub_988.pdf), accessed 25 July 2011.

² Gans J S, *The Economic Case for Public Support of Science and Innovation: Submission to the Productivity Commission's study on "Public Support for Science and Innovation"*, University of Melbourne, July 2006 (available from: http://www.pc.gov.au/data/assets/pdf_file/0009/37359/sub010.pdf), accessed 6 May 2011.

³ See, for example, Jensen P. H. & Webster E., *Achieving the Optimal Power of Patent Rights*, IPRIA Working Paper No. 15/04, (available from: <http://www.ipria.org/publications/wp/2004/IPRIAWP15.2004.pdf>), accessed 3 August 2011.

⁴ Available from: http://www.acip.gov.au/reviews_completed.html, accessed 6 May 2011.

The innovation patent system was implemented in Australia by the *Patents Amendment (Innovation Patents) Act 2000* which received Royal Assent on 24 November 2000. The petty patent system was repealed at this time.

2.4 Objectives of the innovation patent system

The innovation patent system does not set up a compulsory regulatory regime but provides a service that inventors can use to register patent rights in low level inventions, should they choose to do so.

The objective of the innovation patent system is to stimulate innovation in Australian small to medium business enterprises (SMEs).⁵ This is done by providing Australian businesses with IP rights for their lower level inventions that meant that competitors could not copy them.

Innovation patents are also intended to reduce the compliance burden on users of the patent system by providing easier, cheaper and quicker rights for inventions than the rights formerly provided by the petty patent system.

2.5 Key features of an innovation patent

The key features of an innovation patent are:

- the patent term is 8 years rather than 20 years
- plants and animals, and biological processes for the generation of plants and animals, are excluded from the innovation patent system (an exception to this exclusion exists for microbiological processes, and products thereof)
- there can be no more than 5 claims
- the standard for patentability is ‘innovative step’ which is a lower threshold than the ‘inventive step’ required for a standard patent
- the innovation patent is granted following a formalities check—there is no substantive examination prior to grant by IP Australia
- substantive examination and certification is an optional procedure which occurs subsequent to grant
- no pre-grant opposition process—only post-grant and post-certification (Since 2006, only 6 oppositions have been filed—5 of them opposing certification and 1 relating to an ownership dispute.)
- if the innovation patent meets the requirements of examination it is certified and if not it is revoked
- an innovation patent cannot be enforced until after it has been examined and certified.

2.6 Innovation patent system

The innovation patent system requires a lower inventive threshold than the standard patent. An innovation patent is registered (or granted) after a formalities check and without substantive examination. This registration process provides the patent owner with a right that is quick and cheap to obtain, is relatively simple, and lasts for a sufficient time to encourage investment in developing and marketing the invention. However, an innovation patent owner can only enforce their rights if their patent has undergone substantive examination and been certified. Table 1 summarises the

⁵ Explanatory Memorandum for the Patents Amendment (Innovation Patents) Bill 2000 (available from: http://www.austlii.edu.au/au/legis/cth/bill_em/papb2000410/), accessed 6 May 2011.

numbers of innovation patents that have been registered (or granted) since the system's inception a decade ago.

Table 1: Innovation Patents Granted by Calendar Year

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Totals
Innovation patents granted	660	1026	1036	1104	1068	1085	1241	1272	1326	1469	11,287
Granted to foreign applicants	83	136	145	146	146	167	207	244	217	342	1,833
Percentage of foreign applicants	13%	13%	14%	13%	14%	15%	17%	19%	16%	23%	16%
Granted to Australian (AU) applicants	577	890	891	958	922	918	1034	1028	1109	1127	9,454
Percentage of AU applicants	87%	87%	86%	87%	86%	85%	83%	81%	84%	77%	84%
Granted to AU individuals	428	644	674	667	626	566	682	686	676	697	6,346
Overall percentage of AU individual applicants	65%	63%	65%	60%	59%	52%	55%	54%	51%	47%	56%
Granted to AU companies/firms	149	246	217	291	296	352	352	342	433	430	3,108
Overall percentage of AU companies/firms	23%	24%	21%	26%	28%	32%	28%	27%	33%	29%	28%

As can be seen from Table 1, a vast majority of innovation patents are granted to Australian applicants with, on average, only about 1 in 6 innovation patents being granted to foreign applicants. However, the proportion of foreign users of the system has been trending upwards in recent years, with nearly one-quarter of the innovation patents granted in 2010 being granted to foreign applicants.

It should also be noted that a majority of innovation patents are granted to Australian individuals. Interestingly, in the initial years of the innovation patent system, almost two-thirds of all innovation patents were granted to Australian individuals, but this proportion has decreased in recent years to just under half of all grants.

Over the same period, just over a quarter of all patents were granted to Australian companies or firms, with this proportion trending upwards in recent years.

Perhaps this increasing use by foreign applicants and Australian companies and firms reflects a more strategic use of the innovation patent system by these groups of applicants. More discussion of possible strategic uses of innovation patents—especially in relation to divisional applications—will be discussed later in Part 7 of this Paper.

Substantive examination of an innovation patent only occurs if directed by the Commissioner of Patents (Commissioner) or requested by the patent owner or a third party. If the patent meets the requirements of examination it will be certified and if

not it will be revoked. To reduce the scope for unsubstantiated threats, an innovation patent owner can only enforce their rights if their patent has been certified.

Table 2: Innovation Patents Certified by Calendar Year

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Totals
Innovation patents certified	24	102	140	161	186	191	243	229	235	279	1,790
Certified to foreign applicants	6	18	21	39	21	32	27	59	55	77	355
Percentage of foreign applicants	25%	18%	15%	24%	11%	17%	11%	26%	23%	28%	20%
Certified to Australian (AU) applicants	18	84	119	122	165	159	216	170	180	202	1,435
Percentage of AU applicants	75%	82%	85%	76%	89%	83%	89%	74%	77%	72%	80%
Certified to AU individuals	13	59	77	78	98	74	95	83	72	95	744
Overall percentage of AU individual applicants	54%	58%	55%	48%	53%	39%	39%	36%	31%	34%	41%
Certified to AU companies/firms	5	25	42	44	67	85	121	87	108	107	691
Overall percentage of AU companies/firms	21%	24%	30%	28%	36%	44%	50%	38%	46%	38%	39%

Table 2 provides data on the number of innovation patents that have been certified in each calendar year in the period from 2001 to 2010. As can be seen by comparison with Table 1, only about 1 in 6 innovation patents actually proceeds to certification. Also, the proportion of innovation patents certified to foreign users is comparable to the proportion of innovation patents granted to these users—both proportions being, on average, about 20 percent.

One difference of note between granted innovation patents and certified innovation patents is in the number of patents held by Australian individuals and companies or firms. For granted innovation patents on average over the period, individual Australians hold twice as many granted innovation patents as Australian companies or firms (56 percent versus 28 percent). This situation contrasts with certified innovation patents where the respective proportions are about equal (41 percent are held by individuals and 39 percent are held by companies or firms).

Another notable difference is that the proportion of certified innovation patents held by individuals is decreasing over time. Over the period 2008 -2010, only about one third of the certified innovation patents were held by Australian individuals, with the remaining two thirds being held by foreigners or Australian companies and firms. Again, perhaps this increasing use by foreign applicants and Australian companies and firms reflects a more strategic use of the innovation patent system by these groups of applicants.

The rights conferred by a patent under Section 13 of the Patents Act do not distinguish between innovation patents and standard patents. Subsection 13(1) provides:

Subject to this Act, a patent gives the patentee the exclusive rights, during the term of the patent, to exploit the invention and to authorise another person to exploit the invention.

Schedule 1 to the Patents Act provides that:

exploit, in relation to an invention, includes:

- (a) where the invention is a product—make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of those things; or
- (b) where the invention is a method or process—use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use.

Similarly the relief for infringement of a patent provided by Subsection 122(1) of the Patents Act does not distinguish between standard and innovation patents. Subsection 122(1) provides:

The relief which a court may grant for infringement of a patent includes an injunction (subject to such terms, if any, as the court thinks fit) and, at the option of the plaintiff, either damages or an account of profits.

Standard patents and innovation patents are both granted in respect of inventions as determined by Section 18 of the Patents Act.

2.7 Other systems for protecting low level inventions

A ‘utility model’ is an intellectual property right to protect inventions and is available in a large number of countries⁶. A utility model is very similar to a standard patent, but usually has a shorter term—often 6 to 10 years, but sometimes up to 20 years with extensions—and less stringent patentability requirements. The rights conferred by utility model laws are usually more suited to incremental, or ‘low level’, inventions that may not be inventive enough to warrant standard patent protection. Depending on the country, utility model rights are described by terms such as ‘utility model’, ‘petty patent’, ‘minor patent’, ‘innovation patent’, ‘utility certificate’ or ‘innovation model’.

Confusingly, in the United States, the term ‘utility patent’ refers to a standard patent that protects any new technical solution—it does not refer to a ‘utility model’ patent that is intended to protect an incremental or ‘low level’ invention.

Currently, a small but significant number of countries and regions provide utility model protection. With some important exceptions, these countries have developing economies. Also, as in China for example, utility models can be the dominant form of IP right granted in a country or region. A list of countries and regions with utility model protection can be found on the World Intellectual Property Organization (WIPO) website.⁷ These countries and regions include: the African Intellectual Property Organization (OAPI), Albania, Angola, Argentina, the African Regional Intellectual Property Organization (ARIPO), Armenia, Aruba, Australia, Austria, Azerbaijan, Belarus, Belize, Brazil, Bolivia, Bulgaria, Chile, China (including the Special Administrative Regions (SARs) of Hong Kong and Macau), Colombia, Costa Rica, the Czech Republic, Denmark, Ecuador, Estonia, Ethiopia, Finland, France,

⁶ See, for example, the Wikipedia entry on ‘Utility model’ (http://en.wikipedia.org/wiki/Utility_model).

⁷ See: http://www.wipo.int/sme/en/ip_business/utility_models/where.htm, accessed 6 May 2011.

Georgia, Germany, Greece, Guatemala, Honduras, Hungary, Indonesia, Ireland, Italy, Japan, Kazakhstan, Kuwait, Kyrgyzstan, Laos, Malaysia, Mexico, Peru, Philippines, Poland, Portugal, the Republic of Korea, the Republic of Moldova, the Russian Federation, Slovakia, Spain, Taiwan, Tajikistan, Trinidad & Tobago, Turkey, Ukraine, Uruguay and Uzbekistan.

Utility model applications may be prepared and filed at local patent offices in countries where utility model protection is available. In some countries protection is granted after the application has been subject to substantive examination. However in most countries with utility models, applications are granted if they comply with formality requirements. Commonly, particular subject matter—such as methods, plants and animals—are excluded from utility model protection.

In the Australian context, more than half of our major trading partners have utility model systems within their patent regimes. Table 3 compares Australia's innovation patent system with the utility model systems (if available) in Australia's top 20 trading partners. These trading partners are ranked according to the total trade in goods and services (A\$ value) for the Financial Year 2009-2010.

Of particular note is the fact that only 3 of Australia's top 8 trading partners grant utility model patents—these 3 being China, Japan and the Republic of Korea. Significantly, the United States, India, Singapore, the United Kingdom and New Zealand do not grant utility model patents.

The German utility model (or *gebrauchsmuster*) is, in many ways, very similar to the Australian innovation patent. For example, both systems exclude plants, animals, and biological processes from being suitable subject matters. Their terms are similar—8 years in Australia and 10 years in Germany (comprising an initial 3 year term with up to 3 subsequent extensions of 3 years, 2 years and 2 years). Also, divisional applications can be filed to an innovation patent or a *gebrauchsmuster* where the patent relates to more than one invention.

A major difference between the innovation patent and the *gebrauchsmuster* is the ability in the German system to file an application for a *gebrauchsmuster* for the same invention, claiming the same priority and filing dates of an earlier patent application (called *Abzweigung*). This earlier patent application must be a national patent application in Germany, or a European patent application or patent application made under the Patent Cooperation Treaty designating Germany. An *abzweigung* must be filed within 2 months of the date of final rejection or grant of the earlier patent application, or 2 months of the conclusion of opposition proceedings, or at the very latest, within 10 years from the filing date of the earlier patent application.

Finally, a *gebrauchsmuster* is only subjected to substantive examination during proceedings to invalidate or cancel the patent. Anyone can file a request for cancellation, but the losing party must bear all of the costs of the action—including the costs incurred by the opponent. In 2008, the German Patent Office registered 14,347 *gebrauchsmuster* patents, with 13,916 registered in 2009.

Of those countries without utility model patents, only the United Kingdom and India have seriously investigated in recent years whether a second-tier patent system should be introduced. In the United Kingdom, this was done during the *Gowers Review of Intellectual Property* which was completed in 2006. The Report on the *Gowers Review* did not recommend the introduction of utility model patents because, among

other reasons, utility model patents could increase transaction costs and stunt future innovation.⁸

India is currently investigating whether to introduce a utility model patent into its patent system to encourage low-cost, useful and relatively simple innovations which may have commercial value for a limited time period. As part of this investigation, the Indian Department of Industrial Policy and Promotions released a discussion paper on Utility Models on 13 May 2011.⁹

Utility model patents can have real market impact. For example, a Chinese company (the Clint Group) was awarded approximately US\$45 million in damages for alleged infringement by the French-headquartered company, Schneider Electric, of Clint's utility model patent protecting a miniature circuit breaker. Clint later settled for a lower amount of approximately US\$23 million.

⁸ See: <http://www.official-documents.gov.uk/document/other/0118404830/0118404830.pdf> (paragraphs 4.110 to 4.113), accessed 6 May 2011.

⁹ See: http://dipp.nic.in/ipr-feedback/Utility_Models_13May2011.pdf, accessed 3 August 2011.

Table 3: Comparison of Australia's Innovation Patent with Top 20 Trading Partners for FY 2009-2010

Country	Name of Right [#]	Maximum Term [#]	Excluded Subject Matter Additional to that for a Standard Patent [#]	Lower Patentability Threshold [#]	Substantive Examination at Grant [#]	Rank (by A\$)*
Australia	Innovation Patent	8 years	Plants, animals, biological processes	Yes	No	-
China	Utility Model	10 years	Processes, products changed only by mere substitution of material	Yes	No	1
Japan	Utility Model	10 years	Methods, computer software, chemical compositions, plants, animals	No	No	2
United States	Not applicable	-	-	-	-	3
Republic of Korea	Utility Model	10 years	Methods, processes, computer software, chemical compositions	Yes	Yes	4
India	Under review	-	-	-	-	5
Singapore	Not applicable	-	-	-	-	6
United Kingdom	Not applicable	-	-	-	-	7
New Zealand	Not applicable	-	-	-	-	8
Thailand	Petty Patent	6+2+2 years	None	Yes	No	9
Germany	Utility Model	3+3+2+2 years	Methods, processes, biotechnological inventions	No	No	10
Malaysia	Utility Innovation	10+5+5 years	None	Yes	Yes	11
Indonesia	Petty Patent	10 years	Methods, processes or uses	Yes	Yes	12
Taiwan	Utility Model	10 years	Any subject matter not relating to the form, construction or installation of an article	No	No	13
Hong Kong (SAR of China)	Short-term Patent	8 years	None	No	No	14
Italy	Utility Model	5+5 years	Methods, powders, liquids, chemical or pharmaceutical compositions	Yes	No	15
France	Certificate of Utility	6 years	None	No	No	16
Vietnam	Utility Solution	10 years	None	Yes	Yes	17
Papua New Guinea	Not applicable	-	-	-	-	18
Netherlands	Not applicable	-	-	-	-	19
Switzerland	Not applicable	-	-	-	-	20

[#] Data from: Kluwer Law International BV 2010, *Manual for the Handling of Applications for Patents, Designs and Trade Marks Throughout the World*, Supplement No. 133, December 2010.

* Data based on *Composition of Trade Australia 2009-2010*, Australian Government, Department of Foreign Affairs and Trade, Table 5, p26; (Copy available from: http://www.dfat.gov.au/publications/stats-pubs/composition_trade.html), accessed 6 May 2011.

3. Innovative Step

3.1 Statutory basis for innovative step

Following on from subsection 18(1A) of the Patents Act, in order for there to be a valid innovation patent, the invention disclosed in the patent must, among other things, involve an ‘innovative step’. Subsection 7(4) of the Patents Act provides that:

For the purposes of this Act, an invention is to be taken to involve an innovative step when compared with the prior art base unless the invention would, to a person skilled in the relevant art, in the light of the common general knowledge as it existed in the patent area before the priority date of the relevant claim, only vary from the kinds of information set out in subsection (5) in ways that **make no substantial contribution to the working of the invention**. (emphasis added)

Subsection 7(5) identifies the kinds of information and provides:

For the purposes of subsection (4), the information is of the following kinds:

- (a) prior art information made publicly available in a single document or through doing a single act;
- (b) prior art information made publicly available in 2 or more related documents, or through doing 2 or more related acts, if the relationship between the documents or acts is such that a person skilled in the relevant art would treat them as a single source of that information.

According to the definition in Schedule 1 to the Patents Act the prior art information against which an innovative step for an invention is assessed is the same as that used to determine novelty in relation to standard patents. Unlike an inventive step consideration for standard patents—where the prior art information has a limitation of being reasonably expected to have been ‘ascertained, understood and regarded as relevant to work in the relevant art’ by the skilled person (subsection 7(3))—there is no such limitation for innovative step consideration (see subsection 7(5)).¹⁰ Thus although the prior art base for inventive step and innovative step is the same, the prior art information that can be considered for each is different.

Further, from subsections 7(4), 7(5) and 101B(3), during examination an innovative step finding must rely on a published document—information available only through doing an act is not to be considered (unlike re-examination or opposition actions where the doing of an act may be considered). Also—unlike for an inventive step finding—an innovative step finding cannot rely on common general knowledge per se, whether considered separately or together with the disclosure of a document.¹¹

For an invention to involve an innovative step requires a level of inventiveness that is greater than the invention simply being ‘new’ having passed the novelty test. The

¹⁰ This requirement in subsection 7(3) for information to be ‘ascertained, understood and regarded as relevant’ for standard patents is being removed in amendments proposed in the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011 (see Item 3 of Schedule 1 to the Bill). The underlying reasons for this removal are that the provision will be simplified since the prior art base for inventive step in Australia will be expanded so that all publically available information can be considered, and the provision will also be better aligned with the laws of other countries.

¹¹ Patent Examiner’s Manual – National, Section 2.31.4.5.4 – Innovative Step, IP Australia, (available from: http://www.ipaustralia.gov.au/pdfs/patentsmanual/WebHelp/Patent_Examiners_Manual.htm), accessed 6 May 2011.

innovative step test requires that the invention is not only new but that it also differs from what was already known in a way that is not merely superficial (or trivial) or peripheral to the invention. The variation must be of practical significance to the way the invention works so as to make a ‘substantial contribution’ to the working. However, in contrast to a standard patent, there is no requirement that an invention claimed in an innovation patent must be non-obvious. Therefore the test for innovative step will require an inventive contribution lower than that required to meet the inventive step threshold set for standard patents.

The test for an innovative step requires the consideration, and where necessary the identification, of:

- (i). the invention ‘so far as claimed in any claim’
- (ii). the ‘person skilled in the relevant art’
- (iii). to identify the common general knowledge as it existed in Australia before the priority date
- (iv). to ask in accordance with subsection 7(4), whether the invention (in (i) above) only varied from the kinds of information in subsection 7(5) in ways that make no substantial contribution to the working of the invention (in (i) above).¹²

The invention ‘so far as claimed in any claim’ refers to the invention which is defined by the claims—the same wording is used in paragraph 18(1A) of the Patents Act. Therefore, in considering innovative step, the first step is to identify the invention as defined in the claims. Determining what the invention is does not involve a consideration of the advance in the art, or the way an advance in the art is implemented.

The nature of the ‘substantial contribution’ was considered in the *Delnorth appeal* decision and the following points can be made:

- The assessment of innovative step is a matter of fact (see paragraph 79).
- ‘Substantial’ in the context of substantial contribution means ‘real’ or ‘of substance’ rather than ‘more than insubstantial’ or ‘distinctions without a real difference’ (see paragraph 74).
- The substantial contribution is in relation to the working of the invention itself and not the contribution that is made to the art (see paragraphs 79-80).
- There is no provision in subsection 7(4) or subsection 18(1A) which provides means for distinguishing the essential features of the invention (as defined in the claims) from its non-essential features. The concept of essential features/non-essential features is not part of the consideration for innovative step (see paragraph 97).

The end effect of this test—and especially the last 2 points above—is that it is very easy to satisfy the innovative step requirement. As such, an innovation patent is seen as being a very ‘strong’ patent that can be very difficult to revoke.

This situation contrasts with standard patents where the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011 raises the degree of inventiveness required for standard patents to a level that is more consistent with standards set in

¹² *Dura-Post (Aust) Pty Ltd v Delnorth Pty Ltd* [2009] FCAFC 81 (*Delnorth appeal*), paragraph 54.

Australia's major trading partners. Hence it is arguable that the innovation patent system is inconsistent with the intentions of the Raising the Bar Bill.

Consequently, there are concerns on whether a patent right should be granted for the low level of inventiveness provided by the innovation patent system.

4. Court decisions

4.1 Federal Court of Australia

The Federal Court of Australia (FCA) has issued 27 decisions relating to innovation patents since the innovation patent system commenced in 2001. A vast majority of these decisions have dealt with procedural matters, the award of costs or interlocutory relief and will not be commented on further. Only 3 decisions have dealt directly with the crucial concept of innovative step, these being:

- *Datadot Technology Ltd v Alpha Microtech Pty Ltd* [2003] FCA 962 (*Datadot*)
- *Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225 (*Delnorth*)
- *Seafood Innovations Pty Ltd v Richard Bass Pty Ltd* [2010] FCA 723 (*Seafood*).

The *Datadot* decision is of limited use in establishing the proper approach to be used to determine an innovative step since the respondent did not appear in court and did not make any submissions. Hence there were no contested issues to be decided by the court.

The *Delnorth* and *Seafood* decisions on the other hand were contested in court and their judgements are much more prescriptive in establishing the nature of innovative step. These decisions have been discussed in more depth in Section 3.1.

The Full Court of the Australian Federal Court (FCAFC) has issued only 7 decisions on cases relating to innovation patents that have been appealed following decisions made by the FCA. Of these decisions, only decisions relating to innovative step have been considered, these being:

- *Dura-Post (Aust) Pty Ltd v Delnorth Pty Ltd* [2009] FCAFC 81 (*Delnorth appeal*)
- *Seafood Innovations Pty Ltd v Richard Bass Pty Ltd* [2011] FCAFC 83 (*Seafood appeal*).

In its decision in *Delnorth appeal*, the FCAFC dismissed the appeal.

Interestingly, the FCAFC decision in *Seafood appeal* reversed the earlier decision made by Justice Spender. It appears that Justice Spender's decision was based on a narrow construction of the claims of one of the contested innovation patents (Patent No. 2006100980). The *Seafood appeal* decision confirms that the approach to claim construction for innovation patents is no different to that applied to standard patents.

4.2 High Court of Australia

Whilst various parties have sought leave to appeal to the High Court of Australia, leave has not been granted for any of these applications. As such, the High Court of Australia is yet to issue a decision relating to an innovation patent.

5. Previous reviews

There have been a number of investigations over the last 10 years involving the innovation patent system.

5.1 Intellectual Property Research Institute of Australia

Andrew Christie and Sarah Moritz from the Intellectual Property Research Institute of Australia (IPRIA) conducted a review in 2004 (revised in 2005) that traced the history of both petty patents and innovation patents, and analysed their operation.¹³ The main question addressed by Christie and Moritz was whether the petty and innovation patent systems have met, or meet, the objectives for which they were introduced.

This review was empirical in nature since it was conducted before the courts interpreted any contested legislative provisions that are unique to the innovation patent. Christie and Moritz concluded that the evidence suggested that innovation patents met their objective of catering for individual inventors and domestic innovation. Further, a greater number of innovation patent applications were made compared with petty patent applications with 87 percent of all innovation patents applications made by Australians.¹⁴ This proportion of Australian applicants was similar to the petty patent system, but differed dramatically to the 12 percent proportion for standard patents.

5.2 IP Australia

IP Australia conducted a review of the innovation patent system in 2006.¹⁵ This was also an empirical review conducted before the courts had interpreted any legislative provisions that are unique to the innovation patent.

IP Australia found that that the objectives of the innovation patent were generally being met. However, IP Australia also found preliminary evidence existed showing a significant proportion of innovation patents being used to obtain a form of quick protection for high level inventions whilst a standard patent was being pursued. This finding was based on data that showed that about 7 percent of innovation patent applications filed since July 2002 (283 applications out of 4,200) appeared to be closely related to one or more standard applications filed by the same applicant.¹⁶

5.3 Productivity Commission

In 2006, the Productivity Commission investigated intellectual property rights—including innovation patents—and competition policy. In 2007, following this investigation, the Productivity Commission reported that there is a lack of evidence that small to medium business enterprises (SMEs) are disadvantaged by the costs of acquiring intellectual property rights.¹⁷

¹³ Christie A. F. & Moritz S. L., *Australia's Second-Tier Patent System: A Preliminary Review*, IPRIA Report No. 02/04, November 2004 – Revised April 2005 (available from: http://www.ipria.org/publications/reports/AU_2nd-tier_Report-revised.pdf), accessed 6 May 2011.

¹⁴ As evidenced in the discussion of the data in Table 2, the proportion of Australian applicants is now closer to 80 percent rather than the 87 percent determined by Christie and Moritz..

¹⁵ *Review of the Innovation Patent – Final Report*, IP Australia, July 2006 (available from: <http://www.ipaustralia.gov.au/media/resources/ReviewInnoPatentFinalReport.pdf>), accessed 6 May 2011.

¹⁶ *ibid.*, pp 10-11.

¹⁷ Productivity Commission 2007, *Public Support for Science and Innovation*, Research Report, Productivity Commission, Canberra (available from: http://www.pc.gov.au/data/assets/pdf_file/0016/37123/science.pdf), accessed 6 May 2011.

6. IP Reform

6.1 IP Australia's IP reform project

There are a number of proposals to amend the Patents Act in the current IP Reform Project currently being undertaken by IP Australia. Some of these proposals relate to the innovation patent system. The details of these proposals are set out in the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011.¹⁸ As explained in the Explanatory Memorandum for the Bill, the intention of the reforms is to remove some of the inconsistencies in the administration of the innovation patent system when compared to standard patent system.¹⁹ The specific proposals relating to the innovation patent system include:

- (i). amending paragraph 101B (2)(b) to include 'usefulness' as a ground for examination of an innovation patent
- (ii). amending subsection 101G (3) to expand the grounds for revocation of an innovation patent during re-examination to include:
 - a. subsection 40 (2) (full description and claims defining invention)
 - b. subsection 40 (3) (clear, succinct and fully supported claims)
 - c. paragraph 18 (1A) (a) (manner of manufacture)
 - d. paragraph 18 (1A) (c) (usefulness)
 - e. subsection 18 (2) (human beings and the biological processes for their generation are not patentable inventions)
 - f. subsection 18 (3) (plants and animals and the biological processes for their generation are not patentable inventions)
- (iii). amending subsection 7(4) to remove the limitation that the common general knowledge for the purposes of assessing innovative step is restricted to common general knowledge only in Australia
- (iv). amending section 102 so that an amendment to a specification is not allowable if, as a result of the amendment, the description, claims and drawings contained in the amended specification would go beyond the disclosure contained in the specification at its filing date
- (v). permitting the Commissioner to consider information made publicly available through the doing of an act (whether in or out of the patent area) when assessing novelty and innovative step during both examination and re-examination
- (vi). amending sections 101E and 101F so that a 'balance of probabilities' type test applies to considerations by the Commissioner when deciding whether to certify or revoke a granted innovation patent—the Commissioner will not be required to give the benefit of any doubt to the patentee
- (vii). amending section 101J to prevent the Commissioner from revoking an innovation patent following re-examination unless, additionally, the Commissioner is of the view, on the 'balance of probabilities', it is more likely than not that a ground of revocation has been made out

¹⁸ Available from:

<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Fbillhome%2Fs837%22>, accessed 22 June 2011.

¹⁹ *ibid.*

- (viii). amending section 101N so that in the case of an opposition to an innovation patent, the Commissioner is able to revoke if of the view, on the ‘balance of probabilities’, that it is more likely than not that a ground of revocation exists
- (ix). amending sections 101B and 101G so that entitlement is a ground for examination, re-examination and revocation for innovation patents
- (x). amending section 101M so that entitlement is a ground for opposition to an innovation patent
- (xi). repealing section 101D requiring applicants and patentees to inform the Commissioner of the results of certain patentability searches during the examination process
- (xii). permitting the Commissioner to undo a decision to issue a certificate of examination under section 101E if the Commissioner should not have made the decision and it is reasonable to undo the decision, taking into account all of the circumstances.

Overall, the expected impact of the above proposals will be to generally raise patent standards for both standard patents and innovation patents and increase certainty. The proposals do not remove the concepts of a shorter term nor a much lower patentability threshold for innovation patents when compared to standard patents..

7. Current concerns

Stakeholders and other interested parties have raised a number of concerns with the innovation patent system.

7.1 Quick protection for higher level inventions

There is evidence that a significant proportion of innovation patents are being used to obtain a form of quick protection for high level inventions while a standard patent is being pursued. Tables 2 and 3 provide some data on the numbers of innovation patents that might have been filed for this purpose. Examples of this use are innovation patents AU 2004249786 and AU 2006100297 that were granted and certified to Delnorth Pty Ltd and subject to the FCA proceedings discussed in Part 4. However, as stated in Part 2.4, the innovation patent system was set up to provide a service that inventors can use to register patent rights in low level inventions, should they choose to do so.

This raises several questions. Firstly, is the objective of supporting low level inventions still the main reason that inventors file innovation patents. Secondly, is the innovation patent system an appropriate means to stimulate innovation by Australian small to medium business enterprises?

7.2 Relief for infringement

As stated previously, subsection 122(1) of the Patents Act dealing with infringement does not distinguish between standard and innovation patents. Thus identical remedies for infringement are provided for standard patents and certified innovation patents.

An innovation patent may be in existence for several years before it is examined and the scope of the monopoly determined. This delay in certification can cause uncertainty in the market since another party may want to enter the market with a competing product, but may find it difficult to determine whether they could infringe the innovation patent. If an innovation patentee delays certification of their innovation patent for several years after filing—and only chooses to do so after a competitor has entered the market—then they can obtain a restraining injunction which can put their competitor completely out of business. There is some concern that this remedy is too generous for an innovation patentee given that they have delayed certification and the innovative step requirement for innovation patents has proven to be low and easy to satisfy.

This raises a question of whether the current remedies for infringement of an innovation patent are appropriate.

7.3 Divisional applications

Another controversial feature of the current patent system is the ability to file a divisional innovation patent during the pendency of a standard patent application (that is up until three months from when it is accepted for grant). It is also possible to file a divisional innovation patent from an already granted innovation patent within one month of the issue of a certificate of examination of the innovation patent. Table 2 compares the total number of innovation patents granted with the number granted as divisionals of an application for a standard patent.

Table 4: Innovation Patents Granted as Divisionals

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Totals
Innovations granted	660	1026	1036	1104	1068	1085	1241	1272	1326	1469	11287
Granted as Divisionals	38	46	45	59	79	113	121	179	127	204	1011
Percentage of divisionals	5.8	4.5	4.3	5.3	7.4	10.4	9.8	14.1	9.6	13.9	9.0

As can be seen from Table 4, the percentage of innovation patents granted that were divisional applications of applications for standard patents has averaged 9 percent for the first decade of the innovation patent system. This percentage was generally stable at about 5 percent for the first 4 years of the innovation patent system. The percentage then steadily increased to about 14 percent until the Global Financial Crisis hit in 2008, whereupon it sharply decreased in 2009 before recovering to about 14 percent in 2010.

The consequence of these divisional provisions is two-fold. The filing of a divisional innovation patent is frequently a mechanism to fast track the grant and issue of a certificate of examination to place a patentee in a position to commence infringement proceedings. This mechanism avoids the pre-grant opposition period available in respect of standard patents. The opposition period in respect of innovation patents is available after the issue of a certificate of examination by which time proceedings may be instituted.

As stated previously in Part 3.1, the innovative step test requires that the invention is not only new, but that it also differs from what was already known in a way that is not merely superficial (or trivial) or peripheral to the invention. The variation must be of practical significance to the way the invention works, so as to make a "substantial contribution" to the working. However, in contrast to a standard patent application, there is no requirement that an invention claimed in an innovation patent must be non-obvious. Hence, the low standard of patentability for an innovation patent makes it extremely difficult for a defendant to invalidate an innovation patent.

Also, because the standard patent usually remains pending—or indeed one or more separate divisional applications may be made—the applicant retains the opportunity to file as many subsequent innovation patents as it sees fit (up until the point where the legislation prevents further filing). This means that a person accused of infringement may find themselves initially defending proceedings for infringement of a first patent, and subsequently see the proceedings amended to include another patent drafted with the benefit of the weaknesses of a first innovation patent having been identified in the proceedings and so on. This was the situation in the *Delnorth* case referred to above in which three sequential innovation patents were eventually the subject of the proceedings.

A similar situation occurred in *Seafood Innovations Pty Ltd v Richard Bass Pty Ltd* [2010] FCA 723 where the second of two innovation patents considered in the case was granted after the litigation had commenced and the plaintiff had seen a detailed response from the defendant on non-infringement.

Table 5 following provides details of the incidences of the number of divisional innovation patents that have been granted to an application for a standard patent over the period 2001-2010.

Table 5: Number of Divisional Innovation Patents Granted to an Application for a Standard Patent

Number of Divisionals	1	2	3	4	5	6	7	8	9	10
Instances	892	73	24	11	4	2	1	1	1	2

There have been no instances of more than 10 divisional innovation patents granted to a single parent application.

Perhaps a more telling detail is that 44 percent of innovation patents certified in the 2007-2008 Financial Year (FY) were divisionals of standard patents. Whilst this proportion dropped to 29 percent in the 2008-2009 FY, it does highlight the strategic use of the innovation patent system for inventions that can potentially obtain the benefits of the standard patent system. Such strategic use may result in an SME competitor being driven from the market well before the merits of a standard patent are resolved.

Also, Article 4 of the *Paris Convention for the Protection of Intellectual Property* applies to, among other matters, patents and utility models. Article 4G(2) allows for the voluntary filing of divisional applications to a patent application—it is silent as to whether this also applies to utility models.²⁰ This Article additionally allows each country to determine the conditions under which such division shall be authorised. As Article 4 draws a distinction between a patent and a utility model, and Article 4G(2) allows a country to determine the conditions under which a patent application may be divided, Article 4G(2) cannot be taken to extend to an applicant a clear and emphatic right to file utility model divisional applications. Australia, as a signatory to the Paris Convention, therefore is able to exercise some discretion on the conditions that might apply to the filing of divisional innovation patents.

These issues raise the question of whether there is a need to allow for the filing of divisional innovation patents to an application for a standard patent.

7.4 Evergreening

‘Evergreening’ refers to the strategy adopted by patentees who seek to extend their period of patent protection by applying for secondary patents over related or derivative technologies. The practice of evergreening in the pharmaceutical industry has been criticised as being unethical because it effectively enables patent protection to extend beyond the initial patent term despite only trivial changes to the invention itself. Multinational pharmaceutical companies are most frequently accused of abusing the patent system in this way, and it was this concern that prompted much debate and interest in the lead-up to Australia’s implementation of the *Australia–*

²⁰ Full copy available from: http://www.wipo.int/export/sites/www/treaties/en/ip/paris/pdf/trtdocs_wo020.pdf, accessed 6 May 2011.

United States Free Trade Agreement (AUSFTA) ²¹ and during the 2004 federal election campaign.

Under Article 17.10.4 of the AUSFTA, Australia is required to provide measures in its marketing approval process to prevent a person from entering the market with a generic version of a patented medicine before a patent covering that product has expired.

To implement this requirement, the *Therapeutic Goods Act 1989* (the TGA Act) ²² was amended to require an applicant seeking to include therapeutic goods in the Australian Register of Therapeutic Goods (ARTG) to provide one of two certificates in relation to patents prior to the listing or registration of therapeutic goods in the ARTG. ²³ Under subsection 26B(1) of the TGA Act, applicants must provide one of the following certificates:

- (i) a certificate to the effect that the applicant, acting in good faith, believes on reasonable grounds that it is not marketing and does not propose to market, the therapeutic goods in a manner or circumstances, that would infringe a valid claim of a patent that has been granted in relation to the goods
- (ii) a certificate to the effect that a patent has been granted in relation to the goods and the applicant proposes to market the goods before the end of the term of the patent and the applicant has notified the patentee of the application for registration or listing of the goods under section 23 of the TGA Act.

It is possible to attempt to evergreen in the pharmaceutical industry by filing innovation patents for the protection of different methods of use or administration of a patented medicine just prior to the end of the term of the patent. Whilst there is no evidence that indicates this practice is occurring, these granted (but not certified) innovation patents would be treated as ‘patents’ within the terms of the TGA Act.

The effect of having an innovation patent granted would be to ‘reset the clock’ on the patentee’s protection period which would exclude potential competitors from the marketplace for the term of the innovation patent. Generic drug companies and other competitors would consequently be forced to decide whether to delay entry of their own products, challenge the innovation patent, or design around it.

The practice of evergreening in the pharmaceutical industry has been criticised as being unethical because it effectively enables patent protection to extend beyond the initial patent term despite only trivial changes to the invention itself.

It should be noted from Table 1 that a number of Australia’s trading partners exclude chemical or pharmaceutical compositions from being suitable subject matter for utility models.

This raises the question as to whether the excluded subject matter for an innovation patent should be amended to include chemical or pharmaceutical compositions to prevent evergreening practices from occurring.

²¹ Full copy available from: http://www.dfat.gov.au/trade/negotiations/us_fta/final-text/index.html , accessed 6 May 2011.

²² Full copy available from: <http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/current/bytitle/6504B302BFC07061CA25775200216D33?OpenDocument&mostrecent=1> , accessed 6 May 2011.

²³ Refer to subsection 26B(1) of the TGA Act.

8. Issues and questions

This section distils from the previous parts of the paper what ACIP believes are the main issues regarding the innovation patent system. Given that the innovative step requirement for innovation patents has proven to be low and easy to satisfy, ACIP would appreciate written responses to the following questions, plus any supporting data or information, and comments on any issues deemed relevant.

8.1 Effectiveness in stimulating innovation

Only 3 of Australia's top 8 trading partners grant utility model patents—these 3 being China, Japan and the Republic of Korea. Significantly, the United States, India, Singapore, the United Kingdom and New Zealand do not grant utility model patents. Of these countries without a utility model patent, only the United Kingdom has seriously investigated whether a second-tier patent system should be introduced—and it decided not to introduce a utility model patent because, among other reasons, utility model patents could increase transaction costs and stunt future innovation.

Question 1 – Effectiveness in stimulating innovation

Is the innovation patent system a useful adjunct to the standard patent system and an appropriate means to stimulate innovation by Australian small to medium business enterprises? Can you provide any empirical data or other evidence that supports your answer?

Question 2 – Does Australia need a utility model?

Is the objective of seeking IP rights for low level inventions still the main reason that inventors file innovation patents? If not, what is their main reason?

Question 3 – Costs

Is the cost involved in obtaining the grant of an innovation patent a consideration for small to medium business enterprises? Can you provide any empirical data or other evidence that supports your answer?

Question 4 – Certification

Does the cost involved in obtaining certification of an innovation patent influence your decision on whether to seek certification?

8.2 Follow-on innovation

Some countries have patent systems that include a second-tier patent right. Usually these second-tier rights are targeted at follow-on innovations which have a lower patentability threshold.

Question 5 – Comparison with trading partners

Do you have any feedback on how other jurisdictions perceive innovation patents?

What are your experiences in dealing with the second-tier rights granted by our major trading partners—especially China, Japan and Korea?

How do these experiences compare with your experiences in Australia?

Do you have any feedback on dealing with an invention protected by an innovation patent in other countries or with international parties?

8.3 Uncertainty

Some critics of the innovation patent system claim that the system creates uncertainty and stifles competition because the holder of a granted innovation patents has potential rights, not enforceable rights. The actual extent of any right cannot be determined until after an innovation patent has been examined and certified. This certification can occur at any point in time during the life of a granted innovation patent—perhaps some years after the innovation patent was granted. An interested party therefore has to comprehend the full text of a granted innovation patent to determine whether their actions could be subject to an infringement action should the innovation patent be certified.

Question 6 – Uncertainty

Do you have any comments on the uncertainty that arises from the delayed certification process established under the innovation patent legislation?

8.4 Relief from infringement

Subsection 122(1) of the Patents Act does not distinguish between standard and innovation patents and thus identical remedies for infringement are provided for standard patents and certified innovation patents.

Question 7 – Relief from infringement

Are the current remedies for infringement of an innovation patent appropriate? If not, why not and what should be changed and how?

Question 8 – Reduced remedies for infringement

If the remedies for infringement were reduced and, for example, no longer included injunctive relief, would the costs of obtaining an innovation patent be justified?

8.5 Divisional innovation patents

Divisional innovation patents have become a controversial feature of the innovation patent system over recent years. The filing of a divisional innovation patent is frequently a mechanism to fast track the grant and issue of a certificate of examination to place a patentee in a position to commence infringement proceedings. This mechanism avoids the pre-grant opposition period available in respect of standard patents. It also leads to an increasing number of high level inventions being protected by an innovation patent and may result in an SME competitor being driven from the market well before the merits of a standard patent are resolved.

Question 9 – Divisional innovation patents

What are your experiences in dealing with divisional innovation patents?

If you have filed a divisional innovation patent, why did you file it?

Do you have any comments on the impact on competition and innovation that might arise from patentees who fast track the grant and issuance of a certificate of examination for a divisional innovation patent?

8.6 Lost opportunities

Up to 50 percent of applications for standard patents do not proceed to grant. A significant number of these applications lapse during the examination process due to problems with inventive step. As evidenced by a study by the European Patent Office, an examination of a patent application is a time-consuming and costly exercise for a patent office which is only partially offset by revenue raised by renewal or continuation fees.²⁴

Whilst society benefits from the disclosures made by these lapsed applications, they still represent a significant investment by applicants which may, at best, be only partially recovered. In some instances, the investment was sourced from public funds made available through various government programs.

In Australia, many of these lapsed applications could have been granted as innovation patents had they proceeded as such.

A patent request can be amended under section 104 of the Patents Act to convert a request for a standard patent to one for an innovation patent. However, if a first report has been issued on the standard patent application, then there is no entitlement to a refund of the examination request fees for the standard application.

Question 10 – Lost opportunities

Did you know that applicants for standard patents can convert their application into an innovation patent if they have problems with inventive step during the patent examination process? Would you be willing to pursue this option?

8.7 Computing

Computing is a significant technological component of granted innovation patents. Whilst this may not be surprising given the short commercial life of information technology products, the negative impacts of software patents on innovation have been the subject of considerable public debate. It should be noted that both Japan and Korea exclude computer software from being suitable subject matter for utility models. A lower innovative threshold for those patents might be very difficult to justify in the future.

²⁴ Thumm, N, *Uncertainty in the (European) Patent System*, presentation to a WIPO International Seminar on Intellectual Property, Industrial Strategy and Economic Development (available from: <http://www.inpi.gov.br/menu-superior/imprensa/eventos/arquivos-evento-economistas/apresentacoes/Tema%20%20-%20Nikolaus%20Thumm.pdf/view?searchterm=thumm>) accessed 6 May 2011.

Question 11 – Computing

Should the excluded subject matter for an innovation patent be amended to include computer software? Why or why not?

8.8 Evergreening

‘Evergreening’ refers to the strategy adopted by patentees who seek to extend their period of patent protection by applying for secondary patents over related or derivative technologies. The practice of evergreening in the pharmaceutical industry has been criticised as being unjustified because it effectively enables patent protection to extend beyond the initial patent term despite only trivial changes to the invention itself.

It should be noted from Table 1 that a number of Australia’s trading partners exclude chemical or pharmaceutical compositions from being suitable subject matter for utility models.

Question 12 – Evergreening

Should the excluded subject matter for an innovation patent be amended to include chemical or pharmaceutical compositions? Why or why not?

8.9 Other comments

As stated earlier, the innovation patent system has never been comprehensively reviewed to assess whether its objectives remain appropriate for Australia today and in the future. The purpose of this paper is to provoke discussion and any other relevant comments are very welcome.

Question 13 – New opportunities or unintended consequences

Are there any new opportunities for enhancing the innovation patent system? Are there any unintended consequences arising from its implementation to date?

Question 14 – Other comments

Do you have any other comments?

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ACIP invites any interested parties to make a written submission in response to this Issues Paper. In particular, ACIP seeks responses to Questions 1-14 contained in Part 8. However, the purpose of the paper is to provoke discussion and any other relevant comments are very welcome. Where possible, submissions in electronic format are preferred.

